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SUBJECT: A BUBBLE IN SINGAPORE PROPERTY MARKET?

1. (SBU) Summary: Despite Singapore suffering through its most serious recession in decades, the local property market saw a strong surge in 2009 that has fueled concerns a new asset bubble could be forming. The resurgent demand is due to a number of factors, including pent-up demand remaining from the last run up in housing prices, improvement in the global economic outlook, low interest rates, strong household balance sheets, and an increasing view of real estate as an attractive investment asset. Concerned over the buoyant buying activities and price surge in the private residential real estate market, the government unveiled measures in September aimed at cooling the market and pre-empting a speculative bubble. So far, the measures have succeeded in dampening sales, which have slowed since July. The GOS is monitoring the market and still has other administrative measures in reserve to deal with a bubble if necessary. Real estate analysts say prices are not in bubble territory yet, but still see upside potential, particularly on the luxury end of the market. End Summary.

Rapid Recovery in Residential Real Estate

2. (U) Despite Singapore's worst recession since independence in 1965, the residential real estate market has been booming this year. After an initial drop in prices early in the year during the time of greatest economic uncertainty, demand for private residential real estate in Singapore has since witnessed strong growth. The number of new private homes sold surged from a low of 108 units in January to a record high of 2,772 units in July. Slightly over 14,000 units sold from January to November, exceeding the 4,300 units sold for all of 2008, and may surpass 2007's record sales of 14,811 units.

3. (U) The surge in demand has driven prices upward, with prices of non-landed private residential real estate (condominiums and apartments) rising 15.9% during the third quarter of 2009 compared to the previous quarter. The Monetary Authority of Singapore (MAS), the de facto central bank, disclosed in its November Financial Stability Review that speculative activity in the property market had approached levels during the 2007-2008 property boom, though had yet to reach levels seen in 1996-7 prior to the Asian Financial Crisis. They also noted reports of long queues to purchase units at new property developments and entire development projects that had sold out within days. The MAS concluded that "the risk of a renewed escalation of speculative momentum cannot be discounted."

Popping the Bubble

4. (U) In September, Minister of National Development Mah Bow Tan unveiled a series of administrative measures aimed at pre-empting a speculative bubble and ensuring a stable property market. The government removed its Interest Absorption Scheme which allowed buyers to defer payments on purchases of properties that are still under construction. The government also disallowed loans that

required only interest payments for the first years of the loan. These two loan programs had often been used by speculators to purchase properties and later flip them at a higher price with little financial outlay of their own. The government also added in more land to its yearly land sales to developers to boost supply, and decided against extending assistance programs for land developers that had been included in the 2009 budget's special stimulus package. If further measures are necessary, a local analyst said the government could curb home prices by further limiting how much a property's price can be funded with a bank loan, from 80-90% now.

15. (SBU) Leonard Tay, Director of Research for property firm CBRE, told Econoffs that the government measures had some impact and that an unsustainable bubble was unlikely to form. Tay said the government had built experience dealing with asset bubbles and would be more likely to employ the measures it had at its disposal if a new one were to form. Unlike during the 2007 real estate boom that leaned toward the luxury market, the current boom is driven by entry-level properties and the soaring prices are affecting the average citizen's ability to buy a home. With a general election due by 2012 but likely to take place as early as mid-2010, Tay said the government will want to keep asset price inflation in check. Housing sales have cooled since the summer, but Tay predicted prices were unlikely to fall as there were relatively few new property developments coming on line in 2010. He added that potential exists for further price escalation in the luxury segment of the market if foreign investors actively participate in the rally.

Demand Drivers

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16. (SBU) Tay attributed the rally in the residential real estate market to a combination of factors. There was pent up demand from buyers who had been priced out of the market during the residential real estate boom in 2006-2007, and the drop in prices early in the year lured many buyers back to the market. After the worst of the recession had passed early this year and the stock market began to recover (up 90% since March), consumer and investor confidence returned. The investment confidence combined with a healthy distrust in other financial instruments that failed during the recession, making real estate a more attractive asset to hold. Low interest rates globally and in Singapore made the units that much more affordable. Adding new debt during a recession would ordinarily be a concern, but the MAS cited data showing Singapore households entered the economic crisis with relatively strong balance sheets. In the third quarter of 2009, the ratio of household debt to GDP stood at 72%, below the long run average of about 80%.

17. (SBU) Although the current surge in the residential real estate market has been driven mostly by domestic buyers, the boom has lured foreign buyers into the market as well, led by Indonesians, Malaysians and mainland Chinese. According to the MAS, the share of foreign individual buyers and companies purchasing Singapore residential real estate has been rising, reaching 12.5% in the third quarter, up from 8% in the second. Vikrant Pandey, Senior Investment Analyst in UOB Kay Hian Research, told Econoffs that many of these foreign buyers, especially Indonesians, bought in on the luxury end of the market. Many are seeking a stable investment location to park their assets during the current crisis. Vikrant added that the Singapore property market is attractive to cash rich mainland Chinese buyers as unit prices here are generally 30% below their counterparts in Hong Kong.

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